



# **DEFENSE CONTRACT AUDIT AGENCY**

---

## **Fundamental Building Blocks for an Acceptable Accounting System**

**Presented by  
Sue Reynaga  
DCAA Branch Manager  
San Diego Branch Office  
August 24, 2011**

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE <b>24 AUG 2011</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2011 to 00-00-2011</b>	
4. TITLE AND SUBTITLE <b>Fundamental Building Blocks for an Acceptable Accounting System</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Defense Contract Audit Agency, San Diego Branch Office, 7675 Dagget St, Ste 320, San Diego, CA, 92111</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES <b>Presented at the 2011 Navy Gold Coast Small Business Conference, 22-24 Aug, San Diego, CA.</b>					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>16</b>	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			



# DCAA Services

---

## Preaward Contract Audit Services

- Accounting System Survey
- Cost Proposals
- Forward Pricing Labor and Indirect Rates  
(Fringe Benefit, Overhead, G&A and Other)
- Attend Negotiation Conferences



# DCAA Services

---

## Postaward Contract Audit Services

- Provisional Billing Rates
- Incurred Costs/Annual Overhead Rates
- Claims (Hardship, Equitable Adjustment/Delay Claims, and Termination Claims)
- Change Order Proposals
- Contractor Billings
- Contract Audit Closing Statements only When Contract Audit Closing Worksheets are Unavailable



# Accounting System Fundamentals

---

## Accounting System Survey

- Accounting System in Accordance with Generally Accepted Accounting Principles
- Segregation of Direct and Indirect Costs
- Identification & Accumulation of Direct Costs by contract
- Logical & Consistent Method for Allocating indirect Costs
- Adequate Timekeeping System
- A Labor Distribution System That Charges Direct and Indirect Labor to the Appropriate Cost Objectives
- Can Determine Interim indirect Rates
- Excludes Unallowable Costs
- Provides Financial Information Required by Contract Clauses or to Support Progress Payments



# Accounting System Fundamentals

---

## Accounting System in Accordance with Generally Accepted Accounting Principles

- What type of accounting software is used in processing financial information? Is the cost accounting system formally documented? Are contract costs posted at least monthly?
- Accrual vs Cash Basis of Accounting
  - (1) Matching of expenses to revenues.
  - (2) Important because of assignment of indirect costs to final cost objectives.



# Accounting System Fundamentals

---

## Proper Segregation of Direct and indirect Costs

- A direct cost means any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs specifically identified with a contract are direct costs of that contract. FAR 2.101
- Types of Direct Costs
  - (1) Direct labor
  - (2) Direct material
  - (3) Subcontracts
  - (4) Other direct costs – travel, reproduction, computer time



# Accounting System Fundamentals

---

## Proper Segregation of Direct and indirect Costs

- An indirect cost means any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. FAR 2.101
- Types of Indirect Costs
  - (1) Fringes
  - (2) Material handling expenses
  - (3) Purchasing
  - (4) Rent
  - (5) Training
  - (6) Travel
  - (7) Computer time





# Accounting System Fundamentals

---

## Proper Segregation of Direct and indirect Costs

A cost may not be allocated as an indirect cost to a final cost objective if other costs incurred for the same purpose have been included as direct costs of that or any other cost objective.

Example: Guard services



# Accounting System Fundamentals

---

## Direct Costs

- Does the contractor have a subsidiary job cost ledger which accumulates costs by contract?

## Indirect Costs

- Are the indirect costs accumulated in logical groupings and allocated based on benefits accruing to intermediate and final cost objectives?



# Accounting System Fundamentals

---

## Indirect Costs

- Types of Indirect pools
  - Fringes
  - Labor overhead
  - Subcontract handling
  - Material handling
  - Space utilization
  - General & administrative (G&A)



# Accounting System Fundamentals

---

## Indirect Costs

- Types of Indirect bases

Direct labor dollars

Subcontract value

Total material costs

Square footage

G&A – Total cost input

Value-added



# Accounting System Fundamentals

---

## Timekeeping System

- Control over access to timesheets
- Employee maintains possession of the timesheet during the pay period
- Employees prepare time sheets in ink
- Contractor should provide work order or authorization to employee
- Time is recorded no less than daily on the timesheet
- Corrections are made in ink, initialed by the employee and supervisor, and provide a description of the reason for the change
- Should be signed by the employee and approved by the supervisor for entry into the accounting system



# Accounting System Fundamentals

---

## Timekeeping System

- Record all hours worked whether paid or not known as “uncompensated overtime” FAR 52.237-10
- If electronic, only the employee uses their labor charging instrument
- If electronic, a verifiable audit trail process is in place that collects all initial entries and subsequent changes
- Labor distribution records are reconcilable to payroll records and can be traced to and from cost accumulation records in subsidiary and general ledger accounts
- Employees should have training to insure timekeeping policies are known and applied properly



# Accounting System Fundamentals

---

## Compliance with Federal Acquisition Regulations (FAR)

- How does the contractor plan to identify and exclude unallowable costs?
- Can the interim indirect expense rates be readily calculated from the books of accounts and are the interim rates routinely monitored?
- Are total contract expenditures monitored against contract limitations on price and cost, and how frequently?
- Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20?



# Accounting System Fundamentals

---

## Billing Procedures

- Are billings prepared from the books and records?
- Are subcontractors and vendors included in billings only if payment will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment?
- Are total contract expenditures monitored against contract limitations on price and cost, and how frequently?
- Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20?



# *Questions?*

